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ABSTRACT

This paper is a product of the "Changing Domestic Priorities" project which has examined the shifts taking place in the nation's economic and social policies under the Reagan Administration and is now focusing on the major economic and social problems facing the nation over the coming decade. The following topics are discussed in this paper: (1) trends in black economic progress; (2) how these trends may have contributed to the development of an underclass; (3) new estimates of the size and growth of the underclass in a non-technical way; and (4) the implications of these trends for policies aimed at reducing some of the remaining disparities between blacks and whites and assisting the most severely disadvantaged blacks. Three tables, three figures, and 41 references are included. (JS)

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CHANGING DOMESTIC PRIORITIES

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DISCUSSION PAPER

PARADOXES IN BLACK ECONOMIC PROGRESS: INCOMES, FAMILIES, AND THE UNDERCLASS

Ronald B. Mincy

February 1989

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PARADOXES IN BLACK ECONOMIC PROGRESS: INCOMES, FAMILIES, AND THE UNDERCLASS

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This paper is a product of the Changing Domestic Priorities project which has examined the shifts taking place in the nation's economic and social policies under the Reagan administration and is now focusing on the major economic and social problems facing the nation over the coming decade. Funding for this paper was provided by the Rockefeller Foundation.

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PARADOXES IN BLACK ECONOMIC PROGRESS:
INCOMES, FAMILIES, AND THE UNDERCLASS

Introduction

Widely reported earnings increases for black men (U.S. Commission on Civil Rights, 1986 and Smith and Welch, 1986) and the emergence of a "new black middle class" (Wilson, 1978; Simms, 1986; and Landry, 1987) document progress over the last twenty years during which efforts to reduce racial economic inequality have waned. Nevertheless, the enigmatic black ghetto remains with us and its distressing features have taken on alarming proportions (e.g., crime, childbearing by teenagers, welfare dependency, dropping out of high school, male joblessness, drug abuse, and AIDS).

The recent focus on a population called the "underclass" has emerged from the coincidence of these social ills in the nation's largest urban areas (Rainwater, 1981; Auletta, 1982; Lehman, 1986; Nathan, 1986; and Wilson, 1987). This paper briefly reviews trends in black economic progress, discusses how these trends may have contributed to the development of an underclass, presents new estimates of the size and growth of the underclass in a non-technical way, and discusses the implications of these trends for policies aimed at reducing some of the remaining disparities between blacks and whites and assisting the most severely disadvantaged blacks.

Progress in Black Family and Personal Incomes

To assess progress in black family incomes Table 1 shows the ratio of black median family income to white median family income for selected years since 1955. As the table makes clear, the progress that was made

TABLE 1

Ratio of Black Median Family Income to White Median Family Income, Selected Years, 1955-87

Year	Black to White - Median Family Income
1955	55.35
1960	55.41
1965	55.08
1970	61.34
1975	61.53
1980	57.86
1985	57.58
1987	56.07

SOURCES: U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition, (Washington, DC: Government Printing Office, 1975); and U.S. Bureau of the Census, Current Population Reports, Series P-60, Nos. 157, and 161.

NOTE: For years 1955 through 1965, black includes all races other than white.

between 1965 and 1975 has been almost completely eliminated since that time. Thus, the ratio of black median family income to white median family income was 55 percent in 1965, one year following the Civil Rights Acts. By 1987 it had risen by a mere percentage point.

The economy's role in the deterioration of relative black family incomes is clear from data on the black employment-to-population ratio relative to the white employment-to-population ratio (hereafter, relative employment-to-population ratio).[1] To relate these data to the overall performance of the labor market, the unemployment rate for all workers is superimposed on the same figure.[2]

Sustained periods of low and falling unemployment slowed the long term decline in the employment position of blacks relative to the corresponding position of whites. During the tight labor market of the sixties (1964-1969), the male relative employment-to-population ratio actually rose to its initial value of 0.94, while the female employment-to-population ratio declined very rapidly. After 1975, when the unemployment rate rose, blacks of both genders were less likely to be employed than whites. Therefore, tight labor markets affected their relative employment positions in the same way. For example, the relative male and female employment-to-population ratios both improved during the

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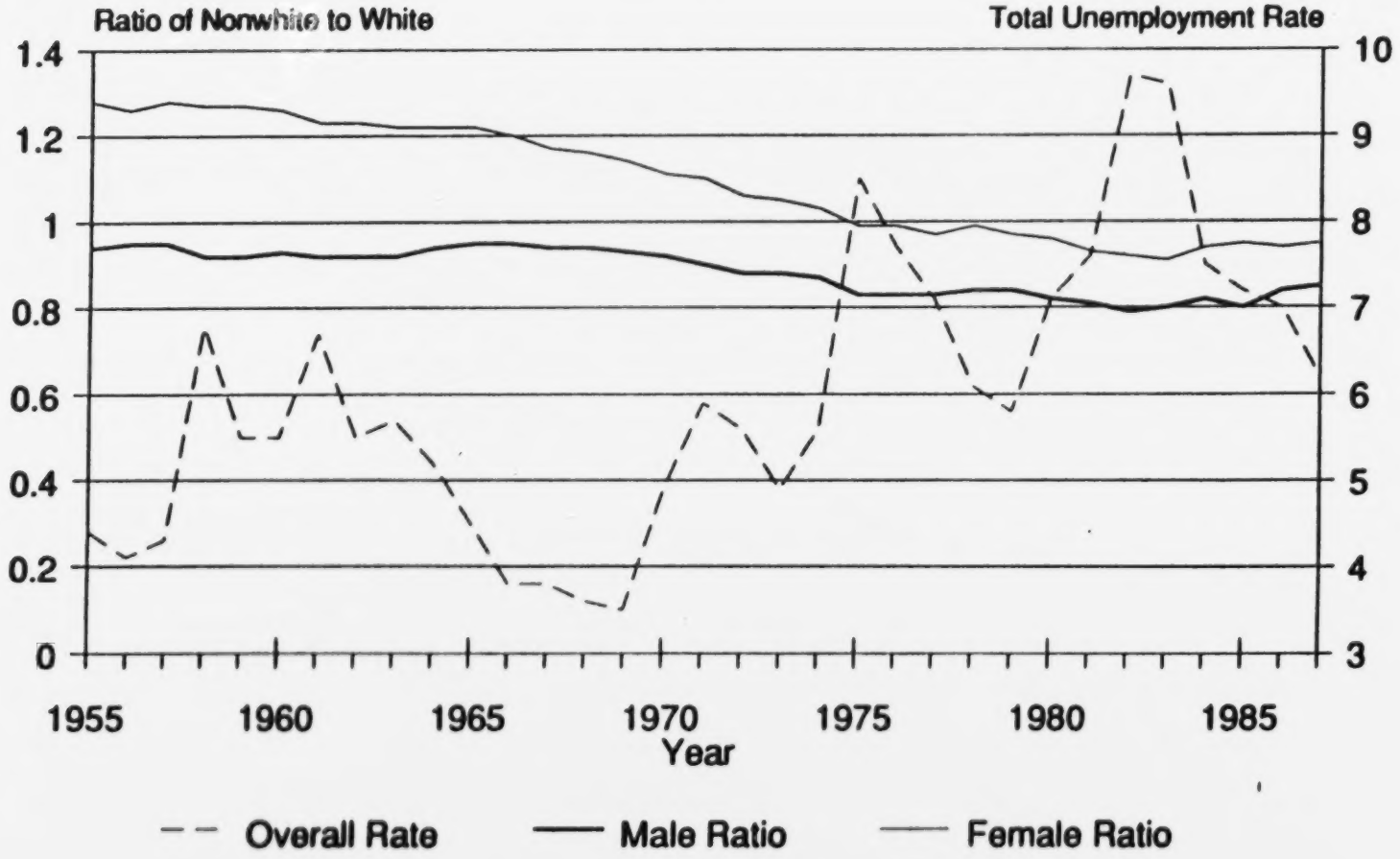
1. Data on labor force characteristics of nonwhites and whites are available from the 1940's, but separate data for blacks was not compiled until 1972. Thus, Figure 1 shows the nonwhite/white employment-to-population ratios from 1955 to 1971 and black/white employment-to-population ratios from 1972 to 1987.

2. The three lines in the figure are reconciled by noting that the scale for the two ratios—nonwhite (or black)/white male employment-to-population ratio and nonwhite (or black)/white female employment-to-population ratio—is on the left, while the scale for the overall unemployment rate is on the right.

FIGURE 1

Ratio of Nonwhite (or Black) to White Employment to Population Ratios by Sex, 1955 - 1987



SOURCE: Economic Report of the President, February, 1988 (Washington, DC: Government Printing Office, 1988)
NOTE: The left axis corresponds to the employment population ratios, the right axis corresponds to the unemployment rates.

recent recovery (1983-1987). Dim prospects for a continued economic recovery into the 1990's suggest that black employment prospects will continue to deteriorate throughout the coming decade.

Well educated blacks, who represent a small but increasing fraction of the black population, have reaped greater benefits from economic recovery than others and may be less vulnerable to recessions. Throughout the 1980's, for example, black male college graduates between 20 and 29 years old have had full-year employment-to-population ratios more than twice as high as black high school dropouts of the same age and average earnings almost two and one-half times the average earnings of black high school graduates (Sum and Fogg, 1988).

Gender differences in the growth of black personal incomes and changes in family structure also helped to reverse earlier progress in black family incomes.

In contrast to median family income, Figure 2 shows a fairly steady upward trend in the ratio of black male median income to white male median income between 1955 and 1970, much slower progress between 1970 and 1975, and almost no change thereafter. Thus, in 1960 median black male income was 53 percent of the white median male income and by 1985 it was almost 63 percent of the white male median income. Although the black female-white male median income ratio has been lower than the black male-white male median income ratio, the former has improved much more rapidly.[3] Further, the former, unlike the latter, has continued to improve during the 1980's.

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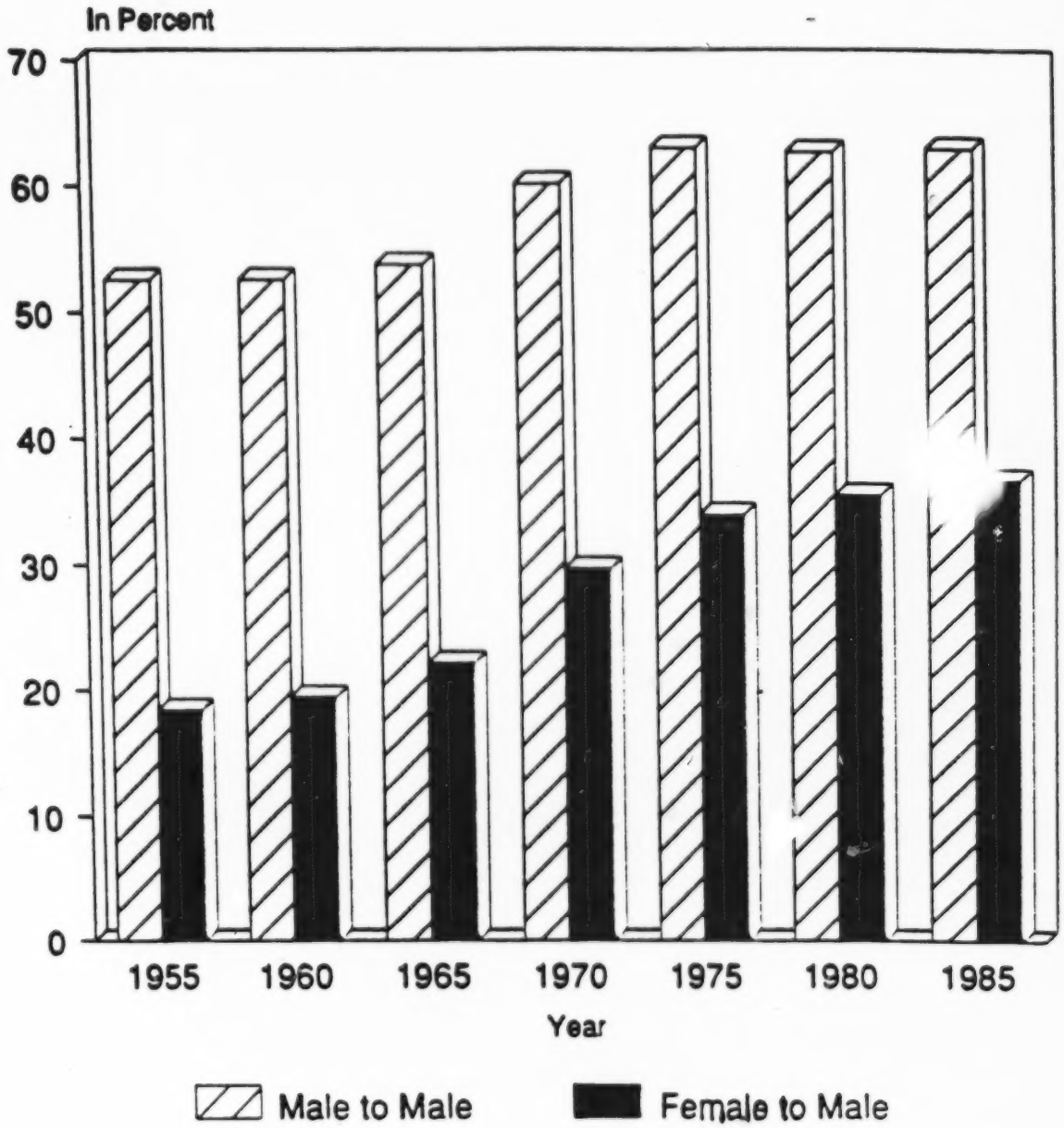
3. While it may seem more natural to compare incomes of black females to those of white females, such a comparison ignores the higher labor force participation rates of black women and their increasingly important role as family heads.

FIGURE 2

Ratio of Nonwhite Male and Female Median Income to White Male Median Income by Sex, Selected Years, 1955-1985



SOURCES: Calculations based on data from the U.S. Bureau of the Census Current Population Reports, Series P-60, Nos. 132, 157 and 161.

This is important for two reasons. First, employed black men tend to work more hours per week and more weeks per year than employed black women. To the extent that income increases reflect wage increases, the growth in black family income would have been greater if the black male income had grown at a faster rate than black female income.[4] Second, several studies cite the superior labor market improvements of black females, relative to black males, as a cause of declining marriage rates among blacks (U.S. Commission on Civil Disorders, 1968; Ross and Sawhill, 1975; Becker, 1981; and Espenshade, 1985). If black male incomes had risen faster than black female incomes, changes in family structure might have been less severe.[5]

Thus, black family structure changes, which sparked such controversy after being highlighted by Moynihan, 1965, were a major reason that black personal income gains were not easily translated into black family income gains. As Table 2 shows, female-headed families have become a significant and steadily increasing share of all black families. These families have had much lower median incomes relative to white families (Table 3) and much higher poverty rates (Figure 3).

Figure 3 also shows that povery rates among black female-headed families fell rapidly between 1960 and 1975, but have shown little change

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4. Clearly this point would have been better illustrated by data on wages or earnings, rather than income. While transfer payments weaken the connection between income and earnings for blacks somewhat, the value of interest earning assets held by blacks is extremely low (Tidwell, 1988). For these reasons, income is probably a good indicator of earnings for black persons and black families.

5. This is not meant to imply that blacks would have been better off if black female wages remained low. On the contrary, the greater increases in black female earnings is partly attributable to greater investments, relative to black males, in education (Farley, 1984).

TABLE 2

Percentage Distribution of Families by Type and Race,
Selected Years, 1959-86
(in percent)

Year	Black			White		
	Husband-Wife	Male-Headed[a]	Female-Headed	Husband-Wife	Male-Headed[a]	Female-Headed
1959	72.4	3.9	23.8	89.2	2.5	8.4
1964[b]	72.0	3.0	25.0	89.0	2.0	9.0
1970	65.7	3.8	30.6	88.3	2.3	9.4
1975	60.0	4.1	35.9	86.8	2.4	10.8
1980	53.7	4.6	41.7	85.1	3.0	11.9
1985	53.2	5.3	41.5	83.5	3.6	12.9
1987	51.3	5.9	42.8	83.2	3.9	12.9

SOURCES: Calculations based on data from the U.S. Census of Population: 1960, "Persons by Family Characteristics," PC(2)-4B; and U.S. Bureau of the Census, Current Population Reports, Special Studies, Series P-23, No. 80, and Series P-60, Nos. 132, 154, 157 and 161.

a. The male-headed figure was derived by subtracting husband-wife and female-headed family percentages from 100 percent.

b. Data for 1964 was obtained from the CPS Series P-23, No. 80 which does not provide any significant digits after the decimal.

TABLE 3

Ratio of Black Median Income to White Median Income
by Family Type, Selected Years, 1959-87

Year	Husband-Wife	Male-Headed	Female-Headed
1959[a/]	55.2	61.6	72.1
1964	62.1	NA	56.7
1970	72.9	70.9	62.2
1975	76.2	64.9	64.0
1980	79.1	67.0	62.4
1985	77.8	67.9	58.8
1987	77.0	66.5	57.1

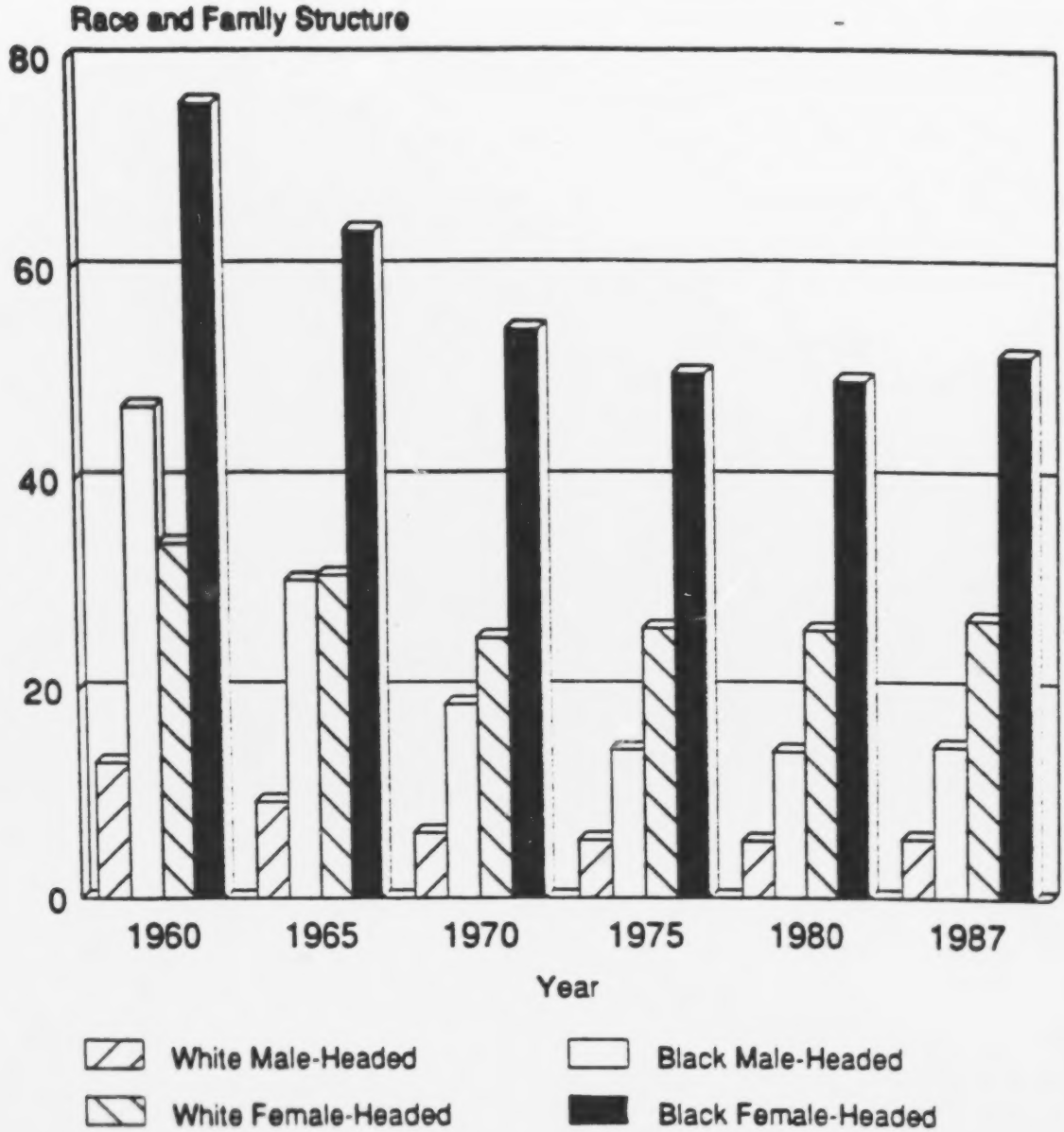
SOURCES: See Table 2.

NOTE: NA = not available.

a. The figures for 1959 were calculated by interpolation from 1960 Census data.

FIGURE 3

Poverty Rates by Race[a] and Family Structure, Selected Years, 1960-1987



SOURCES: Calculations based on data from the U.S. Bureau of the Census, Current Population Reports, Series P-60, Nos. 106, 154, 157 and 161, and Special Studies, Series P-23, No. 80.

NOTE: Male-headed includes all male-headed families with wife present and wife not present.

a. Black for 1960 and 1965 includes all races other than white.

since. In part this reflects a change in the characteristics of women heading such families. Prior to 1980-81, most of the growth in black female-headed families involved women with at least a high school education, many of whom were separated or divorced. More recently, the growth has been among never married women and has involved more out-of-wedlock births (Hill, 1986 and Simms, 1986). As a result of these recent changes, poverty rates among black female-headed families, which were twice the size of poverty rates among black male-headed families in 1960, were almost 5 times the size of those poverty rates by 1987.

Progress Against Discrimination and the Emergence of the Underclass

Several studies suggest that civil rights legislation and enforcement reduced black-white earnings disparities between 1965 and 1970. For example, Freeman (1973) found that EEOC expenditures per nonwhite worker significantly increased the relative income of black workers. Also, Farley (1984) found declining black-white disparities in rates of return on investments in education, training, and migration. While this is strong evidence that discrimination has declined, blacks continue to earn less than similarly qualified whites.

Some observers fear that affirmative action in hiring increased disparities within the black community. This could occur if affirmative action gave employers incentives to hire those blacks with the most work experience or education because subsequent promotions for these blacks were easiest to justify. Employers may also have hired blacks for upper level positions and avoided hiring blacks for lower level positions because such hiring policies would weight the distribution of total black employment toward the higher end of the occupational distribution. (U.S. Commission on Civil Rights, 1986).

Besides employment discrimination, housing discrimination was an important target of civil rights activity. Housing segregation is a very important indicator of socio-economic progress, because housing represents consumption of a package of goods and services—including the cleanliness of the neighborhood, the probability of becoming a victim of violence or burglary, the quality of schools, and so on—and increases in the quantity and quality of goods and services should follow increases in employment and earnings.[6]

Most studies of housing segregation (McKinney and Schnare, 1986; Massey and Denton, 1987; Farley and Wilger, 1987) agree that segregation of blacks from whites has declined since the civil rights era and that the pace of desegregation quickened after the Open Housing Act took effect in 1970. Some studies suggest that blacks with higher levels of income and education are less segregated from whites than other blacks. For example, McKinney and Schnare (1986) attribute most of the increased exposure of all blacks to all whites between 1970 and 1980 to the increased exposure of blacks to whites in upper income neighborhoods. Other studies (see Farley and Wilger, 1987; and Farley and Allen, 1987) find similar patterns of segregation of blacks from whites, regardless of their income or level of education.

Nevertheless, the increased exposure of blacks to whites is likely to have occurred because blacks who could afford to live elsewhere left ghetto areas. This migration plays an important role in Wilson's (1978; 1987) explanation of the emergence of the underclass. He argues that

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6. Although housing segregation may result even when there is no discrimination, the latter is certainly an important cause of the former in the United States.

middle class blacks served as role models for others and maintained community institutions. By keeping blacks with different levels of income and education in the same or in nearby neighborhoods, racial segregation in housing helped to stabilize ghetto areas in the 1950s and 1960s. When fair housing laws reduced barriers to housing location, middle class blacks left the worst neighborhoods, removing vital financial and human resources. Coupled with pervasive joblessness after 1973, this exodus of middle class blacks left poor blacks increasingly concentrated in urban areas. Such concentration has resulted in the spread of social ills associated with the underclass. We now turn to consider this phenomenon directly.

Trends in the Size and Composition of the Underclass

While there is no single definition of the underclass, discussions (Rainwater, 1981; Auletta, 1982; Lehman, 1986; Nathan, 1986; and Wilson, 1987) emphasize that the group is composed of residents of spatially isolated neighborhoods, many of whom exhibit behavior outside the mainstream (e.g., crime, welfare dependency, childbearing by teenagers, male joblessness, and dropping out of high school). Because its neighborhoods are spatially isolated and have high rates of social problems, the underclass is also socially isolated from the rest of urban society. Finally, most observers believe that the underclass consists primarily of blacks in ghetto neighborhoods of older industrial cities in the Northeast and North Central regions and most accounts suggest that the group has grown rapidly in recent years.

Researchers at The Urban Institute have recently developed an empirical definition called an underclass area, estimated the size of the population living in such areas, and analyzed trends in the composition

and growth of this population. According to Ricketts and Sawhill (1988) an "underclass areas" is a census tract with extremely high rates of welfare dependency, male detachment from the labor force, dropping out of high school, and female-headed households.[7] This definition is very restrictive because a tract must score extremely high on all four indicators to be counted among underclass areas. The second underclass study, Ricketts and Mincy (1988) used this definition to estimate trends in the size and composition of the underclass between 1970 and 1980. To make their results fully comparable to those of Ricketts and Sawhill, they applied 1980 behavioral indicators to 1970 data.

Two features of the underclass area definition deserve emphasis. First, while others (Wilson, 1987; Bane and Jargowsky, 1988; Clark and Nathan, 1982) used poverty, especially black poverty, to measure the underclass, Ricketts and Sawhill did not. Instead, they used the behavioral and spatial outcomes emphasized in the literature and allowed the data to determine the poverty status and racial composition of the underclass area population. Second, Ricketts and Sawhill distinguished the underclass area population from members of the underclass, who they defined as teenagers or adults living in underclass areas and directly involved in at least one of the types of dysfunctional behavior. This distinction avoids stigmatizing everyone who lives in an area where

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7. Ricketts and Sawhill regard males working less than 26 weeks during the year as detached from the labor force. Also, they do not regard female-headed households by themselves as evidence of dysfunctional behavior. They use this variable as a proxy for childbearing by teenagers because the Decennial Census does not include a measure of the former. Crime, which is almost always mentioned in descriptions of the underclass, was excluded from their criteria because no crime data was available in the Decennial Census.

dysfunctional behavior is commonplace, but guarantees that the losses or adverse effects experienced by everyone living in such an area enter measurements of the "underclass problem".

For example, descriptions of underclass crime emphasize that perpetrators often victimize their neighbors. It would be clearly inappropriate to label the victims members of the underclass, but it is important to include them as part of the problem. Similarly, young children growing up in underclass areas may not be members of the underclass (i.e., may not exhibit dysfunctional behavior) themselves. But if exposure to dysfunctional behavior by older neighbors leads these children into low academic achievement, crime, drug abuse, childbearing as teenagers, and welfare dependency, then the problem must be defined and measured inclusively.

Underclass Growth and Trends. Ricketts and Sawhill showed that there were some 750,000 people living in all underclass areas in 1970 and by 1980 this population had grown to 2.5 million. While this population seems small—representing about 1.4 percent of the U.S. population in 1980—the underclass area definition is very restrictive. Further, the three-fold increase over the decade suggests rapid growth. Ricketts and Mincy found that 77 percent of this population was black in 1970, but that the black share had fallen to 59 percent by 1980. Poverty rates in underclass areas were 49 percent in 1970 and 44 percent in 1980. These rates were in the same range as the poverty rates in extreme poverty areas used by Wilson (1987) and by Bane and Jargowsky (1988) to measure the underclass. Underclass areas were located almost exclusively inside

SMSA's in 1970 and 1980.[8] Finally, the average tract population in underclass areas declined by 23 percent over the decade.

If depopulation of underclass areas reflected out-migration of middle class residents, one would expect to find the most disadvantaged people left behind. This is exactly what occurred. For example, high school dropouts made up 78 percent of the adults in underclass areas in 1970 and 62 percent of adults in those areas in 1980. The proportion of males detached from the labor force increased from 51 to 56 percent between 1970 and 1980, the proportion of families headed by women increased from 55 to 60 percent. The fraction of families receiving welfare and the high school dropout rate among teenagers were both 36 percent in 1970. By 1980 the former had declined to 34 percent, but the latter remained constant.

While not everyone living in underclass areas was a member of the underclass, the latter population was growing rapidly. The number of men detached from the labor force grew from 100 thousand in 1970 to over 400 thousand in 1980. The number of heads of welfare households, a proxy for the female underclass population, grew from less than 50 thousand in 1970 to almost 300 thousand in 1980. These results provide further evidence of the relationship between male labor force detachment and female-headed families, which is key to the remedies discussed below.

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8. While it is true that residence within an SMSA is not among the Ricketts and Sawhill underclass criteria, both studies use Census data for tracted areas only. Since 93-94 percent of the population within tracted areas resides within SMSA's, rural populations were underrepresented in their sample.

Policy Priorities

More effective anti-discrimination and affirmative action policies top the list of popular remedies for racial economic inequality, just as welfare reform tops the list of popular remedies for the underclass. As we have seen, however, neither goal will be achieved until three intermediate conditions are met: (1) higher employment and (2) higher wages, especially among low-skilled black men, and (3) more black families with two earners. The popular remedies are not the best tools for achieving these intermediate conditions.

Since wage and employment discrimination still exists (see Ellwood, 1986 and Leonard, 1986), affirmation action and continued enforcement of anti-discrimination laws are needed; however, these policies may have little effect on blacks in underclass areas. Those who lack jobs will not benefit from equal pay protection or from affirmative action in promotion. Since so many are high school dropouts, affirmative action in hiring can open up the lowest paid positions at best. At worst, it can cause employers to discriminate against blacks from underclass areas to avoid skewing the distribution of black employment toward low paying jobs.

Continuing to emphasize the goal of reducing discrimination seems unwise because other factors could explain pervasive joblessness in underclass areas. These include: the decline in manufacturing employment in urban areas; the increase in service sector employment requiring workers with more than a high school diploma (Kasarda, 1988 and Vroman, 1987); and the reluctance of low skilled urban blacks to accept jobs in the growing, but low paying, service and retail sectors (Mead, 1986 and Murray, 1984). These explanations leave little hope that government can

produce high paying jobs for low-skilled workers. Further, past manpower programs increased earnings for low-skilled workers primarily by increasing their work effort, rather than increasing their wage rates. Thus, program benefits for adult men have been lower than benefits for younger workers, new labor force entrants, re-entrants and women (Burtless, 1984).

These program benefits are related to the recent welfare reform legislation, the most popular remedy for the underclass. Like manpower programs, the greatest earnings gains from recent state, work-welfare, experiments have come by increasing work efforts by single mothers, through employment services such as job-training, job search, childcare and employment counseling (Gueron, 1987). The 1988 Family Security Act requires all states to develop similar programs, but because these programs rarely apply to absent fathers--the typical case in underclass areas--they will leave half of the underclass problem untouched. Under welfare reform, single mothers will provide support for their children through in-kind services. If they find a job, they will also provide cash support. But absent fathers, who are unwilling take a job, bear no responsibility for their children and those who are willing to work, but are unable to find employment or earn enough, will receive no help in meeting their paternal obligations. Since a rising share of female-headed families has been partly responsible for rising black poverty rates and 60 percent of households in underclass areas are also headed by females, this approach is seriously flawed.

Future policy must compliment work-welfare programs by (1) reducing joblessness among men in underclass areas and (2) making sure that absent fathers in underclass areas support their children. Increasing demand

for low-skilled workers in urban areas or providing public service employment at low wages could accomplish the first goal. If successful, such programs would stabilize labor force participation patterns among men in underclass areas, allow them to establish employment records, and make it possible for those who father children to share the responsibility with mothers and with taxpayers.

This leaves the problem of low pay unresolved, but by joining the ranks of the working poor, the underclass area population would become part of a large and growing constituency whose plight will receive positive action because it receives much more public sympathy and is much easier to understand. It would benefit from policies such as increases in the minimum wage, expansion of the Earned Income Tax Credit, expansion in mandated employee benefits and so on, which rank second to none in importance among domestic policy issues (Sawhill, in American Agenda, 1988).

Establishing paternity and support orders, even when fathers are poor or unemployed, and tying employment services for absent fathers to child support payments could achieve the second goal. The Family Security Act already contains the foundations of this proposal. Further, even though poor, young, black fathers, rarely marry the mothers of their children, Lerman (1986) provides some evidence that they make small cash and in kind child support contributions. This leaves room for optimism that, if government can increase and stabilize their earnings, some absent fathers in underclass areas will make higher and more stable contributions to their children. Finally, while purely punitive measures could backfire, establishing paternity and a legal obligation to support could discourage absent fatherhood.

Summary

Although progress slowed after 1972-73, a buoyant economy, reductions in employment discrimination, and affirmative action in hiring improved employment and earnings prospects for blacks. In particular, these changes enabled well educated blacks to increase their employment and earnings advantages over other blacks. Since black women have had relatively high employment-to-population ratios, blacks who remained in married couple families were much less likely to become poor than those experiencing divorce, separation, or those who never married. As a result, income inequality among blacks has increased (see Sum and Fogg, 1988). Finally, the Open Housing Act facilitated the exodus of some professional or well-educated blacks, but many other blacks remained concentrated within ghetto areas where poverty rates are extremely high. These trends could explain the economic polarization of the black community and the emergence and growth of the underclass in recent years.

Using a spatial and behavioral approach, researchers have identified a small but growing population beset by the social ills common to descriptions of the underclass. This population is primarily, though not exclusively black, and lives primarily in large urban areas in the Northeast and North Central regions, amidst concentrations of low skilled men detached from the labor force, low skilled women heading families and depending on welfare, and teenagers whose high school dropout rates make their future prospects look just as bleak.

Although reducing racial economic inequality is still the primary goal, solutions must recognize and incorporate socio-economic disparities among blacks. Besides policies to protect employed and experienced blacks from wage and employment discrimination and policies designed to

give them preferential access to better jobs, policies must also increase employment and earnings of low-skilled blacks, especially black men. Policies must also increase child support payments by absent black fathers to relieve some of the burden now born by taxpayers and black single mothers.

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